

Evaluating the effects of policy options for the specialty hospital report: results and draft recommendations

ISSUE: As part of its mandated study of physician-owned specialty hospitals, MedPAC is required to consider how the current DRG prospective payment system should be modified to better reflect the cost of care in an inpatient setting. Earlier study findings indicated that the payment rates under the current system do not reflect national average inpatient costs uniformly across DRGs. Instead, hospitals face differences in average relative profitability across and within DRGs, giving them financial incentives to specialize in treating certain types of patients and to select low-severity patients within those DRGs. MedPAC has also been examining the laws governing financial relationships between physicians and hospitals.

KEY POINTS: We will summarize preliminary findings from our analysis of several payment policy options that are intended to improve the extent to which payments track hospitals' costs of furnishing inpatient acute care to Medicare beneficiaries. The options involve four potential policy changes:

- Refining the DRGs to better capture differences in patient severity of illness that affect the costs of care,
- Calculating DRG relative weights based on estimated costs rather than charges,
- Calculating DRG relative weights using hospitals' relative values instead of standardized charges, and
- Better accounting for the effects on the relative weights of extremely high cost cases, which are distributed unevenly across DRGs.

We will present preliminary information on three topics:

- How these options would affect payment accuracy and the distribution of Medicare inpatient payments among hospitals,
- Related policy issues, such as potential administrative burdens associated with these policy options and the need for transition policies, and
- Draft recommendations.

We will also discuss whether there are options for improving the laws governing financial relationships between physicians and hospitals.

ACTION: We would appreciate comments and suggestions from the Commission on all of these topics.

STAFF CONTACT: Julian Pettengill and Ariel Winter (202-220-3700)